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POOLING AS PRACTICED BY COOPERATIVE MARKETING ASSOCIATIONS

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Pooling as practiced by agricultural cooperative marketing associations involves two essential activities: First, the mingling or grouping together under unified action or control of any function of production or marketing; second, the determination of the results of such group action and the allocation to each participant in the pool of his share of the sales returns, service, expenses, or risks that may arise therefrom.

This is a somewhat broader conception than is accepted by some cooperative leaders. Pooling in its relation to cooperative marketing has been subject to various interpretations. By some, the practice of pooling has been confused with the principles of cooperation, and a certain method or practice of pooling has been often used as a measure to determine not only whether an association was or was not engaged in pooling but also whether it was or was not cooperative in character.

There has been a tendency in some quarters to group cooperative marketing associations in two divisions: (1) Associations which pool sales returns or sales returns and expenses; and (2) those which pool only sales expenses. Associations in the first group have been considered pooling organizations, whereas those in the second group have not.

Certain cooperative leaders, as far back as 1919 and 1920, advanced a theory of cooperative marketing which linked pooling definitely with control of large quantities of the commodity. This conception of pooling, by implication at least, limits the use of the term "cooperative" not only to those organizations that pool sales

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returns, but to a special class in this group—those that emphasize control of a large volume with, probably, control of price as an objective. Consequently, the original conception of pooling has been expanded by these leaders to include certain economic theories and policies with reference to cooperative marketing; in their minds it is an essential principle of cooperation rather than a practice which may vary with each organization.

Others have believed that only associations engaged in marketing a single commodity were actually engaged in pooling. Hence the rather common use of the term "pool" to describe an association handling only one product such as wheat. According to this conception of pooling, an association which handles several kinds of fruits and vegetables or is engaged in marketing one or more products and is also engaged in the purchase of farm supplies is not practicing pooling and is not a pool, although it may embrace many of the characteristics of one.

It is believed by the author that a definition of pooling should cover the practice as it concerns not only sales returns but also operating expenses, marketing, and other business risks, or any combination of these. For instance, the local farmers' elevator associations and the Rice Growers Association of California are types of organizations that apply their pooling activities principally to selling expenses. On the other hand, certain local citrus-fruit packing associations pool their cultivation and harvesting activities in addition to pooling sales expenses and returns from sales. In the usual method of pooling sales returns, like that followed by the New York Dairymen's League, for instance, the members receive returns upon the total net sales of the association, according to the quantity and quality of product delivered.

In other words, the pooling practice appears in one form or another in every cooperative marketing association. It is one of a number of features inherent in cooperative organization. This does not imply, however, that all the activities within a cooperative association are pooling operations nor that pooling is synonymous with cooperative marketing.

ADVANTAGES OF GROUP EFFORT FACILITATED BY POOLING

The aim of pooling is to distribute equitably to all member-patrons the results which accrue from group effort and which can not be attained by individuals acting alone. The following are some of the economic advantages of group effort facilitated by pooling: (1) Improvement of the bargaining position of individual growers, through coordination of their efforts; (2) elimination of waste; (3) spreading marketing risks among all members; and (4) possibility of effective market expansion through control of the time, place, and form in which the commodity is sold.

IMPROVEMENT OF BARGAINING POSITION OF INDIVIDUAL GROWERS

Adequate control of the utility factors in the marketing of any commodity is important if the full market price is to be realized. This control must include the power to decide the time when, the place where, and the form in which, the commodity shall be sold.

It is recognized that supply and demand, in the absence of unusual factors, determine a price range within which a commodity may be sold, and that within this range the advantage of a few cents, which often determines profit or loss, goes to the agency that can bargain most effectively. The combination of large quantities of agricultural commodities under the control of one organization facilitates adaptation of the commodity to actual demand conditions. The mingling by growers of certain marketing functions, under the control of efficient management, permits an effective distribution program.

The collection, analysis, and use of pertinent market information, which is essential to a knowledge of true market value, can be made most effective through group effort in large-scale operations. Furthermore, in entering the markets, large-scale organization can offer commodities in substantial quantities of uniform and desired quality. This attracts the large buyer, who thereby has opportunity to obtain his requirements from a single seller and thus reduce materially the expense and effort incident to making contacts with a large number of small sellers. For these reasons large and reputable distributors are constantly attracted to such cooperative associations as the United Dairies of Washington, the Land O'Lakes Creameries (Inc.). the Pacific Egg Producers, and the Staple Cotton Cooperative Association.

ELIMINATION OF WASTE

The average farmer usually does not have a sufficient quantity of product available for market at any one time to enable him to take advantage of the most economical ways of getting his product to market. The assembling, grading, and preparation for market of small lots of produce by numerous individuals at a local point are more expensive than they are if many small lots can be combined and handled as a few large units under a common administration. Similar economies may be effected in the transportation of agricultural products.

Furthermore, the accumulation of large quantities of commodities at buying points eliminates the waste involved in making a large number of individual contacts on the part of both sellers and purchasers. In addition to the unified selling power which results from pooling, the wool cooperatives, by assembling their wool at important distributing points, have made it possible for wool buyers and mills to decrease considerably the effort and expense of purchasing. This decrease tends to reduce the total cost of distribution and to narrow the spread between producer and consumer.

SPREADING MARKETING RISKS AMONG ALL MEMBERS

The pooling feature in a cooperative association facilitates the spreading of marketing risks among all members.

Any organization engaged in the marketing of agricultural commodities must always reckon with a number of marketing risks, such as price fluctuations, physical deterioration of the product, and financial losses. Agricultural products, as well as other commodities, are always subject to price fluctuations. These may cause severe losses during the time required to assemble, process, and ship to market.

Normal price fluctuations in some commodities (wheat, for instance) may not cause serious risk; but price fluctuations are sometimes very wide, and then the risk becomes too great for a single farmer to bear.

Other risks arise from deterioration of the product while in the process of being assembled and prepared for market, while in transit to market, and while in storage. There are also unavoidable financial risks, such as credit losses, transportation losses, and many others.

These marketing risks are especially important when the producer markets as an individual. The individual producer who assumes these risks may obtain at times considerable profits or he may suffer heavy losses. These operations partake of the nature of speculation, and the individual farmer does not often have the necessary information to enable him to speculate with his own products and compete satisfactorily with professional traders. In a cooperative association these marketing risks and losses, which may be incurred while the product is in the hands of the association, are pooled in the sense that profits and losses are spread among all members in proportion to the products contributed by each member.

POSSIBILITY OF MARKET EXPANSION

Several cooperative associations have already demonstrated the value of rational market-expansion policies. For instance, the California Fruit Growers Exchange has widened its markets through the establishment of brands and the development of recognition and preference for the product. Cooperative associations representing the walnut growers, cranberry growers, egg producers, raisin growers, apple growers, butter and cheese producers, and many others have demonstrated the possibilities of group action in effective market development. Few farmers, as individuals, can afford to undertake market development because of the expense involved and the lack of sufficient supplies to make the exploitation policy permanent. Here, again, the pooling by a large number of growers of the expense, risks, and other features involved in market expansion makes possible a program for widening the market for their product which is of benefit to the grower, but which would be prohibitive were it undertaken by him individually.

POOLING MARKETING EXPENSES

There has been a tendency to group cooperative associations according to whether they pool sales returns or merely operating expenses. Practically every association might be included in the latter group. In fact, most associations pool sales returns more or less completely. Although these two major pooling practices are identical in principle, they differ somewhat in their mechanical application.

In mechanical operations of marketing, savings accrue from the assembling of ordinarily accepted commercial units. For instance, growers who have their commodities assembled, graded, processed for shipment, stored, financed, and transported in quantities which permit economical handling effect definite economies in marketing expense.

One of the conspicuous examples of reduced local marketing expenses brought about by farmers through pooling is to be found in cooperative cream stations. The cream station is the chief market outlet for cream in the less intensive dairy sections, where production is usually rather small for each producer.

In most of the small towns in these sections, several competing cream stations are found. Because of the small volume of business, the expense of handling cream is often relatively high in each station. In Idaho, Illinois, North Dakota, and several other States, cooperative cream stations have been formed by groups of farmers who wanted to secure for themselves the economies that might result from handling a larger aggregate volume of business. Dairymen who formerly patronized several small independent stations have joined together, and, by pooling their cream, have obtained a volume sufficient to reduce materially the expense of local handling. The larger volume enables the station to be better equipped and to render to both the producer and the buyer more satisfactory service. The number of cream stations has been materially reduced by these cooperative organizations. For example, at some points in Idaho when a cooperative cream station had been operating a year, the number of independent stations had decreased.

The question of whether indirect expenses shall be allocated according to physical unit, value, direct labor, or according to some other basis is one that can not be generalized upon. Each case must be considered on its own merits. For example, in storing cotton, one bale occupies approximately the same space as any other bale, and the storage rate recognizes this fact. On the other hand, there may easily be $50 or more difference in the value of two bales of cotton and, were the storage charge based on value, one owner would thus be assessed considerably more than another for the same service—that is, the rental of a definite amount of space.

The pooling of sales expense presents a different problem. As a general rule, it is probably easier to sell a high-grade product than one of inferior quality. When selling expenses are pooled on the basis of value per unit, the high-grade product is paying the highest charge. Is this equitable to all members, or does it tend to penalize the members who deliver a high-quality product? Pooling the selling expense on the basis of physical unit tends to place a higher relative charge on the lower grades. This tends to penalize the lower and inferior grades—which in many instances may be justified, as the inferior grades are usually disturbing factors in the market (or in the price situation). This illustrates the care with which plans for pooling marketing expenses must be worked out before being put into effect, and the danger of generalizing as to such methods.

It is believed that pooling of actual expenses, in short-time pools, is wholly impracticable since many expenses can not be determined by the end of the pooling period, partly because they are not incurred for a period which coincides with the pooling period. Under such conditions it is preferable to fix a definite charge per unit, which will yield an amount sufficient to cover the costs of performing the services, with the thought that any surplus income will be returned to members at the end of the year as a patronage refund.

POOLING SALES RETURNS

One essential result to the grower, among the other advantages that may accrue from the pooling of sales returns, is the averaging of fluctuations in market prices. An equitable distribution of sales returns to growers involves at least three essential considerations: (1) Pooling on the basis of quality, (2) pooling time, or length of the pooling period, and (3) pooling area, or the area to be included in the pool.

ON THE BASIS OF QUALITY

The aim of pooling by quality should be to reflect back to the individual grower the differentials in price which the market affords for the various grades of his product. The grower who, by better selection of his seed, better cultivation, and better harvesting and handling, delivers a superior product for market should have the benefit of the market-value differentials, as reflected in such better prices as the market is willing to pay. The determination of the market-value differentials on products handled by cooperative associations, however, should be given special attention, as these better prices for superior products serve as a stimulus to better production practices.

Cooperative associations with seasonal pools are often confronted with the problem of determining market differentials between grades and varieties of the same commodity, in order to reflect back to the grower equitable normal price differentials between the different qualities of product, under varying market conditions. This problem arises because the year-to-year changes in the relative supply of different grades of the commodity may upset usual price differentials, so that the average annual price of a low-grade pool for a particular season may be equal to that of a high-grade pool because of sale of one grade at one period of the season and another grade at a different time, following a radical change in prices. This situation also arises where, during a short period of relatively high market prices, larger quantities of low-priced grades are being sold. Such price situations reflect short-time changes in demand. They do not reward the producer who plans his operations to meet long-time needs, but tend to place a temporary premium on haphazard production. In other words, so far as market differentials permit, sales returns to growers should, over a long period of time, reflect the extra cost and trouble incurred by the producer of high-quality products.

The obvious accounting procedure for reflecting to growers the value of their products would be to keep separate the expenses and returns for each grade. This is impracticable for several reasons: (1) Some expenses, such as rent, advertising, and salesmen's salaries, are incurred for several grades jointly and any division of these joint expenses must be arbitrary. (2) The sale of two or more grades is often made at a flat price. The buyers pay a price slightly in excess of the value of the lower grades as a means of obtaining the better grades at a slightly reduced price. (3) The keeping of records of expenses and income for each quality handled is very costly and involves at all times a small measure of arbitrary division.

For these reasons some associations have developed a practice of determining normal price differentials between the various grades of their product on the basis of selling experience, and using these differentials in the accounting of their pooling operations.

As a bookkeeping method, this requires only one sales account, to which all returns from sales are credited and against which all direct pooling expenses are charged. The total sales value of all the products of each grade is determined by using the normal price differential applied to the quantities in that grade. Authorized deductions are made from this total sales value.

In pooling on a basis of quality, it is important not to carry refinements in grading to a point beyond the requirements of the trade or to a point at which added expenses involved exceed the market differentials which are reflected back to the grower. This is well illustrated by the experience of a cooperative association in western New York that handled barreled apples. Barreled apples in the past have been marketed in one principal size division, apples 2½ inches in diameter and larger being included in one package. To the growers it seemed that the price range for this size division was unduly wide and that a refinement of the sizing practice might be advantageous. This situation in part prompted the association to adopt a policy of sizing its fruit in ¼-inch grade divisions. After three years' operations under this grading policy, the association found itself confronted with a most difficult sales problem. A careful study of their sales records showed an unusually high customer turnover. Upon further investigation of this phase of their merchandising policy, it was found that few buyers preferred to purchase barrels of quarter-inch sized apples, because such apples were not suited for their trade.

The average retailer is confronted with the problem of supplying one housewife with large apples for cooking purposes, another with small apples for children's use, and perhaps a third with a combination of sizes in a 25-cent purchase. The variety in sizes was not available in a barrel that contained apples uniformly sized in a quarter-inch gradation, but the combination of sizes was available in a barrel containing apples 2½ inches and larger. The retailer could, therefore, carry an adequate stock by purchasing a single barrel of the old-style packing. Hence he had a definite preference for the older method of packing.

The facilities of the United States Department of Agriculture with respect to setting up Federal standards and providing supervision for neutral inspection and grading services based upon United States standards have relieved several cooperative associations of the difficult responsibility of grading accurately superior and inferior commodities with justice to the producer, to the association, and to the buyer.

LENGTH OF POOLING PERIOD

In considering the time element in pooling, it is essential to get the proper balance between the growers' requirements and the demands of efficient management. Growers' requirements include financial needs as well as rewards for care in adjusting production to market demand. For instance, in certain commodities, like peaches and early

potatoes, in the case of which there usually is a wide variation in price between early, mid-season, and late marketings, this factor should be considered in determining the length of the pooling period. The pooling arrangement should aim to reflect back to the grower his normal price advantages. That is, the grower who, by special productive effort, succeeds in getting his product ready for market during the high-price periods of the season should be rewarded for this extra care.

From the standpoint of efficient management, it may be desirable to have a pool which extends over a long period of time in order to assist the organization in its program of marketing. On the other hand, the financial situation of the individual growers often requires a pool of short duration. The value of money is not the same to all growers. The longer the pooling period, the more complex is the credit situation to some growers. In other words, the financial circumstances of some growers often make it difficult for them to market through a seasonal pool.

In considering the time element in pooling from the standpoint of efficient management, the degree to which a cooperative can adjust its operating methods to meet grower demands and yet maintain business efficiency varies. It varies not only with the inherent characteristics of the commodity but with the way in which each association's commodity articulates with the market for the commodity. A cotton cooperative association has as potential customers 4,000 to 5,000 processors (mills) to which it can sell its cotton in comparatively small lots, whereas the New York Dairymen's League must deliver the aggregate product of thousands of producers to a few large distributors.

Cooperative associations are beginning to recognize the necessity for developing pools of varying duration to fit the different needs of individual growers. Take, for example, the large-scale cotton cooperative associations organized in the Southern States in 1920 and 1921. During the first years of their operation these associations pooled entirely on a seasonal basis, but during the last two or three years several of these associations have changed their method of operation and have established pools varying in length of time. Daily pools, 30-day pools, and seasonal pools are now common, and the farmer is given the right to choose the particular time pool to which he wishes his product to go. The daily pools are, in reality, merely an arrangement whereby the association acts as agent. This fact might lead some people to cease to classify the cotton associations as strictly pooling organizations.

With nonperishable commodities, such as wheat and cotton, the operation of short-time pools may be materially assisted by the use of the organized exchanges, which provide future price quotations. Take, for instance, the operation of daily cotton pools, in which the grower is permitted to choose the time of sale. In case a spot sale for that particular quantity can not be made on the date chosen by the grower, the association sells an equivalent quantity on the futures market. This hedge is liquidated at some future date when the actual cotton is disposed of through the spot market outlets of the association.

The theory of a seasonal pool in a cooperative association handling a commodity that is harvested annually during a comparatively short

period but which is marketed throughout a longer period, is that group or association action has economic advantages over individuals operating separately, for an association can hold the product and feed it into the distributing channels more efficiently during the necessary carrying period than can a large number of individuals who operate separately. This requires that the marketing risk be carried by the group or association unless the association is able to transfer certain elements of risk to other parties—which may be done when the commodity is traded in upon an organized exchange or when it is covered by insurance.

In the case of fruits which are to be the raw material for subsequent manufacturing processes, the adjustment of the length of the pooling period on a basis similar to that of the cotton pools would be rather difficult, because of the inherent characteristics of the raw material. Fruits are subject to a degree of deterioration in the raw state which makes it difficult to arrive at probable future market values. If a satisfactory daily, weekly, or monthly pool could be established, it probably would be necessary to sell the raw product on a spot market, either in total at the beginning of the season or by distributing it in smaller quantities from time to time as needed by processors. The seller would assume the marketing risk until the commodity was sold, and the buyer would assume it as soon as the purchase was consummated. A buyer might purchase at the beginning of the season but, because of the inherent characteristics of the commodity, he would buy at a price which would allow the producer a compensation for assuming market risks and which would be somewhat lower than the final average price that might be returned by the association's seasonal pool, in which risks and benefits were assumed by a group of producers.

On the other hand, individual growers who sell small lots from time to time assume the marketing risks individually during the period for which they carry the product. If the growers prefer, the association's services to its members might be limited to grading, market-news information, adequate contact with the buyer, financial assistance, and other services. In this case the grower individually would carry the important marketing risks.

The management side of this problem is even more complicated, because of the lack of any unified control of the commodity in planning the sales program. If a large percentage or tonnage of the commodity were disposed of through the short-time pools, this would defeat the association's processing and merchandising program. In other words, the benefits that accrued from carrying, processing, and merchandising the product would be passed on to private enterprise. And what is perhaps equally, if not more important, in many cases is the fact that the grower might gradually lose contact with the ultimate user of his product.

AREA TO BE INCLUDED IN A POOL

The aim sought in including a large area in one pool is to make the pooling system sufficiently comprehensive to enable a single business unit (1) to control distribution to market and (2) to convert, or

allocate for conversion, the raw product into such uses as will result in the greatest net returns for the industry—usually understood to be operative within an economic area, for example, the New York milk shed. This would require the aggregation of those interests embracing the marketing functions from the origin of the crop to its final distribution. The degree of uniformity of product and time of maturity of harvesting are, with most commodities, factors which influence materially and sometimes limit rather definitely the area which can be included in the same pool.

The pooling features found in a cooperative milk-marketing association will serve to illustrate rather clearly the practices and problems involved in pooling by large areas. In the first place, such a pool requires the selection of the borders of the milk shed, so that all areas which naturally come into competition for the fluid-milk market will be included. If more distant areas, which are not economically competitors with those closer to a given market, are brought into the pool, the total supply is increased and prices to many of those participating in the pool are lower than they would otherwise have been. If too small an area is included, unless the cooperative possesses adequate purchasing machinery to secure supplies outside the regular milk shed, times may occur when dealers are short of supplies and must themselves go outside the milk shed to obtain milk. When this temporary supply from outside the borders of the shed once gains access to the market, it can not easily be prevented from continuing. The final result is an oversupply, except during the low-production periods, and a lower average price to producers.

With the extremes of the milk shed defined, the fluid-milk pooling problem involves further the question whether the milk shed is to be divided into a number of pools related to secondary markets as well as to the primary markets or whether the entire area shall be included in a single pool. That there will be differentials to take care of differences in transportation costs and fat content has been generally recognized as essential. The question of proper differentials to care for inherent economic advantages possessed by producers located near the primary or principal market or near a secondary market is one which cooperative associations that pool from a relatively large area are beginning to realize is important. That is, the producer located near a market has an economic advantage other than differences in transportation costs. His ease of making contact with dealers through his close proximity to the market and also the fact that he usually has less seasonal variation in supply, will enable him to stay in business when prices are too low for the more distant shipper to cover costs and have a margin of profit. Unless the cooperative association is willing to recognize this, it may find its membership gradually decreasing in the near-by areas. Generally speaking, the farmer near a city, because of his longer experience in fluid-milk marketing, has adjusted his production to his demand; hence he has less seasonal variation in supply.

Once the limits of the pooling areas have been defined and equitable differentials have been set up to care for economic differences, the problem of converting the raw product into such various uses as will yield the greatest net returns for the industry is of prime importance.

A cooperative fluid-milk marketing association is confronted with the problem of supplying the market with as large a supply as it will take for fluid use at a given price and of converting the remainder of the supply controlled by the association into various forms, such that the net receipts from all sources (and from all uses) will give a maximum return to the membership. It is probable that attempts will be made to effect similar development in pooling by large areas with other commodities.

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